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DEVELOPING PARTNERS FOR THE YEARS AHEAD

If it were possible to take a snapshot of public accounting in the 1960s and compare it with a similar picture of public accounting in 1984, the revolution in our profession would become startlingly apparent. The 1960s snapshot would show a profession which generally respected restrictions on advertising, solicitation and recruiting of competitors' personnel. There were a modest number of technical pronouncements regarding auditing and reporting, and no standards regarding quality-control procedures. Rapidly expanding public capital markets and a robust economy were accompanied by increased demand for accounting, auditing and tax services. The automated office was still in its infancy, and client billing arrangements were most frequently defined orally, if at all.

In those days, partners were valued for being technical and for their ability to get client work done. While "salesmen" partners existed, they were in the minority, and a lack of technical skills was considered to be fatal. The "maintenance" partner—someone who served existing accounts rather than generating new business—had a definite place in the firm. Job satisfaction was relatively high, and partner turnover was low.

A snapshot of the 1980s shows a very different scene. Demand for auditing and accounting services has gradually slowed. One study indicates that these services will grow less than 2 percent a year through the rest of this century. Standards overload has become an issue, and peer review requirements have necessitated more quality-control procedures and documentation. Restrictions have been eased on solicitation and advertising. Office automation is in full bloom, and there has been an explosion in new products and services offered by CPA firms. Billing arrangements and work assignments with clients are defined by engagement letters and even written contracts.

The effective 1980s partner must constantly add new clients to his list, if only to replace those who have been lost. A more complex society has fostered an increasing need for specialization in an industry or discipline. Specialization has in turn fostered the need for clients to be shared between partners, for example, between one partner who might have technical accounting skills, and another who is stronger in the tax area.

The maintenance partner who can serve clients but who cannot add new clients to the list is no longer economically viable. In addition, partners must learn to use, or at least live with, microcomputers, word processors, computerized research and still maintain accounting, tax or some other special discipline.

Most of us intuitively recognize that not all partners are good at all things, except when we ask what a partner should be able to do. The list is incredible, and it includes maintaining high billable hours; recruiting, counseling and supervising staff; providing business advice; marketing; practice administration; developing new products and services; planning; public speaking; and community service. No one can do all of these things well, and smart practitioners are learning to go with their strengths and let others do the things they do not do well. Critical to this segmentation of work load is the recognition that administration and leadership are not the same. Partners lead; they do not necessarily have to administer. A leader makes sure all the important things are done, but an administrator does them. →

What's Inside . . .

Perhaps one of the most important leadership roles of partners is to recognize that there has been an acceleration in the rate of technological change, and that the life cycle of skills has been shortened. Every practitioner, every year, should have as a goal learning a new skill or expanding a marketable existing skill.

A colleague in one firm loves to tell about one of his "grey-haired" partners whose audit skills had long since atrophied. This partner's experience and knowledge of client operations, coupled with a little training, allowed him to become a busy strategic-planning consultant. In another instance an accounting specialist converted his new enthusiasm for microcomputers into a thriving practice installing and supporting computerized accounting systems for clients.

One message is clear. If your firm is to retrofit its services to be responsive to dynamic changes of the 1980s, the partners must take the lead. They cannot lead by suggesting that others learn new skills. They must first retrofit themselves.

The initial step in this process is to raise expectations of partners in specific ways and communicate these higher expectations to them. It may be necessary to restructure the way partners work, to change client assignments or to restructure the office in other ways to make these changes effective.

We recently assigned all nonprofit work in the firm to one partner. The partner's increasing skill level enhanced her reputation, and the practice doubled within a year. Yet, to do this, she had to give up her security blanket, which consisted of some very important clients.

A key to developing partners is to focus their attention on developing one new skill or discipline. The major stumbling block is the variety of choices available. Examples of areas of focus could include personal financial planning, litigation support, strategic planning, mini- and microcomputer installation or an industry specialization. What makes this program successful is concentrating on areas where fees are less sensitive and can be based on value added as a consultant rather than being based on the traditional formulas generally used.

We have found we succeed best by introducing change through pilot projects as opposed to trying to revolutionize everything at once. It gives us a chance to find out if the idea works without harming the firm if it doesn't. A clear understanding of the reasons for the change and the results that are expected are essential.

These changes may require defining the difference between resources and overhead. For example, we frequently suggest that our lawyer and doctor clients get an office administrator, but we hesitate to hire them for our own firms because we don't want to increase our overhead. Administrative personnel, microcomputers and word processors, properly applied, can be resources that leverage income upward. A partner in one firm, working full time with a microcomputer, was able to prove that he could be more profitable and generate more revenue than he had in the past, with a secretary and two professional staff accountants.

As we change the services and structure of the services offered, we must also be willing to change our compensation programs and our ways of looking at hours, revenues and profits. Just because revenues were distributed a certain way last year does not mean the same method should be used this year. In the dynamic 1980s we should get used to the idea that positions and profit shares in our firms are not permanently enshrined, but are subject to change. We must be willing to evaluate partners on overall results rather than on whether they fit a preexisting firm model—say, one partner, three staff.

Despite the revolutionary nature of our times and the need to change, we have some time. Most firms can rely on the fact that in the current year they can expect 80 percent of their income to come from the same clients and the same services they provided the year before. Recurring compliance services for our existing clients will help pave the way and pay for the training, experimentation and change necessary to ensure our success in the 1980s. ☑

—by Robert L. Bunting, CPA
Seattle, Washington

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Motivating Staff

Many of us were raised on the old axiom "Spare the rod and spoil the child." That may make sense in child rearing, but it doesn't in the business world. It is essential to reprimand at times, of course. This, however, should only be done when all else fails, because although people will usually respond to a reprimand, there is often the risk of backlash.

Keep in mind that many of us weren't brought up to reward "good behavior." Instead, we tend to expect the good and watch out for the bad. However reasonable that may appear to us, today's highly skilled employee likes to be told that he or she is doing a good job and wants to be acknowledged for it. The acknowledgment needn't be costly. A letter of commendation, a night on the town or a challenging assignment are all gracious ways to say thank you.

Encouraging right wingers

Some psychologists believe that the right spheres of our brains are responsible for our creative energies and the left spheres for more analytical and mathematical activities. If this is so, the right sphere would tend to foster decision making that "feels right" to us but which doesn't necessarily add up while the left sphere would encourge us to make decisions based on facts rather than on feelings.

By all means pay attention to "left wing" decisions. They are critical to business success. Don't just ignore those from "the right," however. Knowing the facts is critical to any business decision, but successful ventures are also made on hunches and by people who may not conform to accepted norms. In many firms, "right wing" thinking probably plays just as important a part in their success as do thoughts from "the left." Don't let creative talent float out the door.

That salary is the best motivator is perhaps one of the biggest myths around. Experts, including Frederick Herzberg in his book *The Managerial Choice: To Be Efficient and to Be Human,** have made it quite clear that salary alone is not a motivator.

A management-consulting client on the West Coast once remarked that he was perplexed because a 5-percent raise to all employees did not result in increased motivation. Productivity did improve for a while but, within about two months, was back to where it had been before.

I told him of someone I knew who, on an irregular schedule, took his employees out for pizza and beer and found this greatly improved their motivation. "You mean that pizza and beer are better motivators than money?" the West Coast client exclaimed. The answer is yes because the pizza and beer say, "I care" while automatic or across-the-board raises do not.

So as not to overstate the matter: Money can be used as a motivator when it is a reward for a job well done or for a new idea. Keep in mind, however, that it is probably not the money that is doing the motivating; rather, it is the recognition. When using money this way, be sure to say, "I care." If you do not, you may find you are increasing your overhead, but the return on this investment is doubtful.

In essence, a good motivational program shows employees that the firm respects their individuality and contributions to its success. People like to know that their lives have meaning, and a little encouragement and positive feedback can go a long way. ☑

—by Albin J. Cofone
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*Frederick Herzberg, *The Managerial Choice: To Be Efficient and to Be Human* (Homewood, Illinois: Dow-Jones Irwin, 1976).

The Three "P" Objectives for Professional Service

Strategic planning is an important function in the management of any firm. Establishing and achieving short-term objectives, such as increasing return on investment, penetrating new markets and developing new products and services are essential to success.

It is a time-consuming and vital management process to assess and select alternative short-term objectives (which can be achieved in a year or two) and to assess and implement the tactical programs and procedures necessary to achieve them.

In a professional service firm, however, there are three overall strategic objectives that are timeless and which encompass all potential short-term ones. They are timeless in that management must continuously strive to achieve them, regardless of the firm's short-term goals.

These three overall strategic objectives for professional firms may be expressed in shorthand form as "the three P's"—profit, product and personnel. Less

(Continued on page 6)

Organizing Effective Seminars...

A well-executed seminar can be an effective way for a firm to build closer relationships with clients and referral sources and demonstrate its strengths and capabilities in specific areas. Monroe Shine & Co., a New Albany, Indiana, CPA firm holds seminars on three or four topics every year, usually in that city and sometimes in its two other locations—Bedford, Indiana, and Louisville, Kentucky—as well. Most of the seminars are on the general subject of tax—estate planning, year-end tax planning, etc. Sometimes, though, the program is designed to emphasize one of the firm's emerging specialties, such as computer expertise.

In describing the firm's approach to organizing effective seminars, Dale L. Gettelfinger says that some of the seminars are designated as being of general interest, such as those on personal financial and year-end tax planning, while sessions on business or estate planning are geared for special-interest groups. Other ideas are programs that cement relationships with clients' accounting personnel below the controller level or programs on "hot topics" such as entrepreneurship. In all cases, the idea is to eventually generate more revenue for the firm.

Some of the seminars feature speakers who are well known as authorities on specific subjects. Mr. Gettelfinger points out, however, that there are certain disadvantages to using a speaker who is not a member of the firm. These include having less control over the content of the presentation and the possibility that the handout material may not be of the desired quality.

Monroe Shine does not schedule seminars during tax season but tries to space them from June through December. Mr. Gettelfinger says the timing should be coordinated with the firm's other practice development activities and with seasonal events. Similarly, the choice of weekday should be influenced by local considerations such as early closing as well as by vacations and holidays and, of course, by competition with civic and sporting events.

Except at estate planning sessions where the presentations can take 2½ hours, most of the speeches are of 45-minute duration. Typically, registration is from 3:00 p.m. to 4:00 p.m., with the presentation starting at 4:05 and finishing at 4:50. The attendees can then have refreshments and still be home by 6:30. Mr. Gettelfinger suggests keeping participants' travel time in mind when deciding how long to make the sessions. He says that people who have to spend an hour and a half traveling to and from a seminar might feel cheated if they only get a 45-minute presentation.

...To Provide Additional Services...

We practitioners are often informed that the best source of additional services is our present client base. Our firm has certainly found this to be true. A good example of this occurred last year, when we obtained several man-weeks of work by taking advantage of the service opportunities presented by the 1984 Tax Reform Act. Here's what happened.

Once the tax act was finalized, we began work preparing a seminar on its implications. We developed a presentation (including slides) and had invitations printed, which we sent to all our clients, both corporate and individual. Although we knew that many people would not attend, we believed that by making all of our clients aware that we were holding a seminar on this important topic, it would reinforce their perceptions of our firm.

We arranged to hold the seminar at a local Holiday Inn. The seminar was free of charge and ran from 5:00 p.m. to 6:00 p.m., with cocktails afterward. We also arranged for a similar presentation about two weeks later that was sponsored by our local Chamber of Commerce.

After our seminar had been presented, we informed our corporate clients of the significant compliance issues that they now faced. We explained that we would like to spend a few hours reviewing their existing procedures so that we could make any necessary recommendations. Most clients were extremely receptive to this type of engagement.

We developed a checklist of issues raised by the tax act, some of which led to discussions with clients about such areas as pension and fringe benefits and, ultimately, to additional work. To prepare for these engagements, we held a special two-hour training session for the staff members involved, explaining the purpose of the program and the methods to be used for gathering information.

The entire program was an overwhelming success. We received high marks from our clients for being "on top of things" and providing them with valuable information. We were happy because it strengthened our relationships with clients and provided chargeable staff hours during the normally slower months of November and December. ☑

—by John G. Hodgson, Jr., CPA, CFP
New Bedford, Massachusetts

...And Develop Clients

All CPAs know of the broad-ranging effects the Tax Reform Act of 1984 has had on clients. By late spring last year most lay persons knew something of these effects too, and it seemed to us to be a pertinent topic for a seminar—an opportunity to expand our referral base and increase our clients' awareness of our technical capabilities.

To begin, we ordered some seminar materials from a publisher. These consisted of slides, an outline and brochures containing highlights of the act. On receiving the data in August, we selected a date for the seminar—November 1, 1984.

The detail planning started immediately. Believing the right choice to be important in how the quality of the presentation was perceived, we selected an internationally recognized hotel as the location for the seminar. The format we chose was to conduct the meeting from 4:00 p.m. to 6:00 p.m. and follow this with cocktails and hors d'oeuvres.

We next prepared a letter outlining some of the material to be discussed and sent this with an invitation to 191 clients three weeks prior to the presentation. We also wrote a newspaper article about the seminar and sent invitations to selected physicians, dentists, lawyers and bankers. Everyone was asked to respond in about a week.

After receiving responses from only 20 or so people by the requested date, we had a few moments of doubt. People continued to call us, up until the day of the presentation, however, and we confirmed 65 reservations. Of these, only 37 ultimately showed, but we had 16 walk-ins for a total attendance of 53 people, or 18 percent of those invited. Six people from our firm also attended.

Each attendee received our firm's version of the TRA highlights bound in one of our own folders. This made an attractive and permanent source of reference material. Two partners made the presentation utilizing a script and the slides we had purchased as visual aids. The actual presentation lasted one hour and twenty minutes, and we allowed thirty minutes for questions and answers. Most attendees stayed for a while afterward to mingle socially, and this proved to be an excellent opportunity to meet new people and answer individual questions.

No charge was made to the participants of the seminar. The hotel did not charge us a room fee, and the minimum guarantee for food and drinks was easily surpassed.

Our total out-of-pocket cost for the seminar was \$1,070. This consisted of \$250 for seminar material, \$572 for food and drinks, and \$248 in printing costs. In addition, the individuals who made the presentation spent about 60 hours in preparation, and professional and secretarial staff members were involved in the planning and preparation.

We believe this presentation was well worth the time and money spent. Although tangible results are difficult to measure, the promotion of the firm was accomplished; the goals we set were achieved. ☑

—by Steven M. Corley, CPA
Norman, Oklahoma

Food and drink! Monroe Shine usually has a cheese and raw-vegetable tray. (Mr. Gettelfinger says the colors are appealing whereas potato chips and peanuts look awful.) The firm also provides a buffet (meat, chicken, salads, etc.) drinks and essentials such as sodas, mixes and, of course, tea and coffee.

All staff members attend Monroe Shine's seminars. Everyone is told to mingle with guests and, if possible, to sit with clients during the presentation. Spouses are invited too, so that they can get a better understanding of what the firm is trying to do.

The preferred room for the seminar, Mr. Gettelfinger says, is one that can be divided. One-half can then be used as a reception/registration area. The idea is to have one door leading to the other section so that people can be moved in quickly.

Just inside that section, the first thing confronting attendees is a table on which are firm materials. Seating is separated into smoking and nonsmoking areas (the chairs usually have to be rearranged) and the firm tries to put fewer chairs out than the number of people expected. Extra chairs are kept in the back of the room as reserve, but the overall effect is one of an overflow crowd.

The seminars are advertised in the firm newsletter, and Mr. Gettelfinger says staff is also encouraged to issue invitations. The firm utilizes a part-time marketing person and finds that friendly relations with the local newspaper often results in publicity.

Computers make pinpointing desired attendees and compiling a list of them relatively easy. Invitations can be mailed to clients in general or to specific groups such as bankers and attorneys, medical practitioners or trade association members.

Mr. Gettelfinger says that, given some thought and planning, seminars can be an effective means of practice development, and he thinks they should be part of every firm's marketing effort. ☑

The Microcomputer as a Surprise

Much has been written on how to assist a client in selecting a microcomputer together with the related programs for such common applications as accounts receivable and payable, inventory, payroll and general ledger/financial statements. Lucky is the CPA, however, who is asked to assist in the purchase and installation of a computer and in the orderly transfer of record keeping from manual to computerized procedures. Today, this is frequently not the way the client gets exposed to computers. Often a computer has been initially purchased for purposes other than accounting, such as word processing, mailing lists, scheduling or engineering tasks, and only later is an accounting program acquired. In these situations the accountant may not have been consulted when it was decided to use the computer for accounting applications.

When this happens, we usually discover that the operators have only a hazy knowledge of elementary bookkeeping. In the opinion of the client, the operator is qualified as long as he or she can operate the keyboard of a computer terminal and therefore is given the responsibility of keeping the financial records. Since the computer is supposed to save money, as many duties as possible are concentrated in that one individual, and whatever division of duties had existed before has now completely vanished. Little thought has been given to the crucial question of what happens when the one and only operator is absent.

Clients, of course, assume that the operator's manual that came with the accounting package would enable any literate person to execute the programs. They overlook the fact, however, that most of the manuals specifically disclaim any intention to teach the operators bookkeeping or accounting. In addition, the manuals are written in computer jargon and are difficult to understand. Usually, the vendor who sold the accounting package was asked to install the accounting program, and the operator will only have been taught some rudimentary procedures to enter the daily transactions. Few if any notes are generally taken during such a "training session."

The outcome, of course is predictable.

- ☐ Source documents are not properly identified and cannot easily be traced from computer-prepared records.
- ☐ No orderly filing system is established for input and output documents.
- ☐ Backup procedures, although strongly recommended in program manuals, are not followed, and time-consuming reconstruction of records becomes necessary in the inevitable accidental destruction of data.
- ☐ Passwords are not assigned or, if assigned, not guarded, and unauthorized access to sensitive data is possible.
- ☐ Shortcuts such as undocumented correction of master file records are undertaken.
- ☐ Journal entries are made with sketchy or missing explanations or documentation.

Three P's *(continued from page 3)*

abbreviated delineations of these objectives are

Profit. Our firm is a profit-seeking business entity. Its management's objective is to earn an adequate profit to ensure a fair return on investment for the company's owners. Unless the firm earns an adequate profit, the owners will have no incentive to invest in growth opportunities, and management will not be able to achieve its strategic objectives.

Product. Our firm is a professional-service business, operating in a competitive environment. Management's objective is to provide clients with high-quality, professional services on a timely basis. These services should be designed to meet clients' needs and performed on a cost-effective basis.

Personnel. The most important asset of our firm is its employees. Both their technical expertise and dedication are essential to its service orientation. The firm operates in an environment where it must compete to hire and retain the most qualified personnel. Therefore, its management's objective is to provide a stimulating and rewarding work environment that is conducive to the professional and personal growth of employees. As well as providing them with such surroundings, management should make sure employees are adequately compensated for their efforts.

In a professional service firm, management must never lose sight of the overall strategic objectives: profit, product and personnel. While achieving any one short-term objective will not ensure long-term success, failure to achieve one of the overall strategic objectives, will ensure that the firm won't be successful over the longer period. ☑

—by Robert F. Reilly, CPA
Chicago, Illinois

- ☐ Transaction lists and reports do not indicate date of preparation, identity of the preparer or the fact that they have been critically reviewed by responsible management.

What can accountants do when they have to cope with this increasingly common situation? They must, of course, insist that the operators become familiar with the program manuals. If by this time the operators have hands-on computer experience, the manuals will now make a lot more sense. Even then, however, the program manual by itself is not sufficient to give guidance for the special conditions of a particular organization. In order to be affordable, programs that the average small business is using must be sold in large quantities. They must be flexible in order to accommodate the many different conditions under which they are used. But this program flexibility does not mean that management can leave the choice of options to the whim and convenience of the operators. Instead, management should establish a separate manual containing the exact procedures for items such as

- ☐ Location of specific programs and data files within the computer system.
- ☐ Location of backup disks.
- ☐ Frequency of backup of data for on-premise and off-premise storage.
- ☐ Use of passwords for low-level operations, operations which require approval by management and assignment and changing of passwords.
- ☐ Maintenance of checklists and logs to ensure that transactions are entered in proper sequence and in the proper accounting period.
- ☐ Design of proper input and output forms.
- ☐ Filing and record retention.
- ☐ Designation of authorized persons for control and approval of
  - –Source documents;
  - –Additions or deletions in master file records, such as customer, employee, vendor and general ledger accounts;
  - –Changes in master file record for credit limits, rates of pay, level of inventory and budgets.
- ☐ Identification of date and of name of preparer of any report or transaction listing.
- ☐ Designation of type and frequency of any required report and transaction listing.
- ☐ Responsibility for review of output.

It is a rare client of a local practitioner who is able to prepare such a manual without assistance. CPAs therefore should be ready and willing to lend a hand. Aside from the fee for such an engagement, the accountant will gain a better understanding of the client's operation than before and more confidence in the reliability of the computer-prepared records and financial statements. The CPA will also be able to give better advice in all facets of the client's business, which will help cement relations with the client. This is vitally important in our increasingly competitive environment. ☑

—by Manfred E. Philip, CPA
Boulder, Colorado

Reducing the Impact of the Loss of a Key Employee

Losing the services of a key employee can be a severe blow to any firm—your own or a client's. Yet with planning, disruptions in operations can be minimized until the replacement has reached the desired level of effectiveness and efficiency. Let's examine six strategies, which together result in a program for reducing the impact of the loss of a key employee.

Rotating applicant file

This is a file of recently interviewed job applicants with whom the firm maintains contact for at least six to nine months. By constantly interviewing applicants for various positions, the firm can gauge the quality and availability of human resources outside the organization. And through the maintenance of a rotating applicant file, there should be several people to call upon in the event the firm is faced with the quick departure of a key employee.

The easiest way to maintain a rotating applicant file is through a policy of continuous interviewing irrespective of immediate staffing needs. Employee awareness of such a policy will alleviate any anxiety over the interviews.

Cross training

For employees who can manage the responsibility, firms might consider establishing a schedule that permits them to gain experience in other work areas and departments. This could be for just a few hours each week and planned so that there is no significant reduction in overall productivity.

In the long run, cross training could improve productivity by developing a network of skills available in emergencies.

Vacation substitutes

A strategy closely related to cross training is the policy of using the vacation time of key employees to give others experience in the position. The process should be open and explained in detail to the entire staff. Care should be taken to ensure that substitutes are not only given assignments that they can handle but ones in which they can make a measurable impact. If administered properly, a policy of using vacation substitutes can benefit everyone.

Monitoring other activities

Another strategy is to periodically invite staff members to meetings they would not ordinarily attend, such as meetings of other departments. Alternatively, staff members could be allowed to review reports, files and activities of other departments.

Developing good working relationships

Try to find out what is really on employees' minds or how they think the firm's operations can be significantly improved. Periodic lunches with employees might provide opportune moments for such discussions. Often what is wanted are deep-seated responses to questions, which can help develop good working relationships—particularly with key employees.

Ideally, supervisors should have these types of discussions with all staff on a continuing basis. This is one of those policies that tends to be forgotten over time, and extra effort should be taken to ensure it is followed.

Contingencies

The last strategy is a simple exercise. Firm owners should write down the names of key employees and ask themselves what they would do if one of them were to resign that day. The available options may include placing an advertisement in the employment section of a local newspaper, sharing the responsibilities among several people until a replacement can be found or abolishing the position and reorganizing the department. If you have planned for this contingency, however, you will have people within the organization who have experience of the task and are ready to be promoted, or there will be several names in the rotating applicants file you can call upon. One of them can probably more than adequately fill the shoes of the departed employee. ☑

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